

Rules Development Implementation Working Group: Call for nominations

Thank you for your interest in the Rules Development Implementation Working Group (RDI WG).

Background

The Market Rules Evolution Plan (MREP) and recommendations of the Verve Energy Review (Verve Review) both identified the need for a review of a number of aspects of the Wholesale Electricity Market (WEM).

The MREP process identified the following top five issues to be addressed:

- Improve the Balancing mechanism (allow IPPS to contribute towards balancing where this makes sense economically);
- Review of the Reserve Capacity Mechanism;
- Improvements to STEM (moving closer to real time, multiple gate closures, transparency of STEM offers and a preliminary calculation of MCAP));
- Closer alignment of gas and electricity nominations; and
- Introducing markets in Ancillary Services.

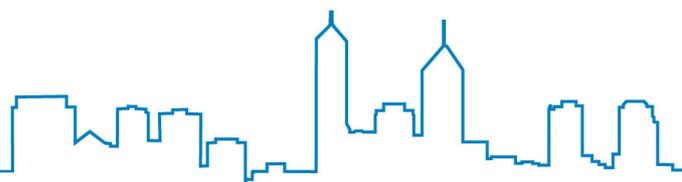
The MREP work programme to address these issues was presented at the October 2009 Market Advisory Committee (MAC) meeting. This programme noted that the proposed priorities and timelines were independent of the implementation of the Verve Review recommendations and that it may change as a result of the Verve Review implementation plan.

Among other recommendations, the Verve Review recommended that the following market design issues be reviewed:

- The capacity deficiency penalties;
- Broader participation in the balancing mechanism;
- The provision of Ancillary Services; and
- The provisions relating to pricing in the STEM and Balancing mechanism.

The Market Rules Design Team (MRDT)¹ was formed to look at both the MREP and Verve Review issues.

¹ The MRDT comprised representatives from the IMO and its consultant, System Management and Oakley Greenwood



The MRDT conducted two workshops and released three papers in addition to discussions within the formal MAC meetings. The concept papers outlined potential development options, identified by the MRDT, to improve the coordination of resources within day ahead timeframes, these were:

- Enhancements to the current hybrid design; or
- Moving to a more mature market design (net or gross dispatch arrangements).

The MAC was presented with a development pathway decision, which broadly comprised:

- Pathway 1: Push the current design as far as possible;
- Pathway 2: Adapt the current design and at the same time evaluate a more mature market design; or
- Pathway 3: Move straight to the evaluation of a more mature market design.

The MAC has recommended that the IMO Board pursue Pathway 1, on the understanding that this pathway is to address the appropriate issues identified in the MREP, the Verve Energy Review and other relevant issues that have been highlighted by the process. This recommendation is conditional in that it does not endorse any specific solutions to the issues under consideration. The full details of the MAC decision are available on the IMO website².

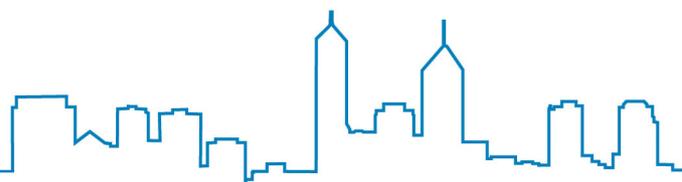
The MAC, at its 11 August 2010 meeting, agreed a specific list of design issues/problem statements to be addressed by the RDI WG. This list is available in appendix 1 of this paper.

Nominations

The IMO is currently seeking applications for:

- three Market Generator representatives, of whom one must represent Verve Energy;
- three Market Customer representatives, of whom one must represent Synergy;
- one System Management representative;
- one Network Operator representative (optional);
- one member representing the Economic Regulation Authority; and
- one member representing the Office of Energy.

² www.imowa.com.au/design_review





The Chair of the RDI WG will be a representative from the IMO.

This membership will be supported by the IMO and supplemented by consultants (as required). The IMO Chair has the discretion to appoint additional members.

Due to the specialised nature of the work, proxies will only be accepted for the RDI WG with the Chair's approval.

The Terms of Reference for the RDI WG is attached as appendix 2.

Membership Requirements

The IMO seeks a balanced representation and a diverse mix of knowledge and experience. Members of the RDI WG will collectively possess the skills, knowledge and experience outlined below:

- detailed knowledge and expertise of the current market design;
- detailed knowledge and expertise of market design principles; and
- broad understanding of the technical, operational and commercial aspects of the WEM.

Members of the RDI WG will need to be available for half to full day workshop style meetings at nominally three weekly intervals, with the first meeting scheduled to be held on Friday, 27 August 2010, 10.00am – 4.00pm.

Applications

All applications must be delivered to the IMO by **5.00pm, Wednesday 18 August 2010**.

Applications should include a completed membership application form (enclosed in this pack).

The IMO prefers to receive applications by email, using the attached application form, to: **market.development@imowa.com.au**.

Applications may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: General Manager Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399

To allow applications to be properly assessed, please ensure all the information requested in the nomination form is included.



Rules Development Implementation Working Group: Selection Process

The selection process for members is as follows:

1. **13 August 2010:** Nominations sought.
2. **18 August 2010:** Nominations due. Please note that only one nomination per company will be accepted.
3. **19 August 2010:** IMO assessment of all nominees. The IMO will recommend membership to the MAC.
4. **20 August 2010:** All applicants advised in writing of the outcomes of the appointment process.
5. **27 August 2010 10.00 – 4.00pm:** The first workshop will be held.

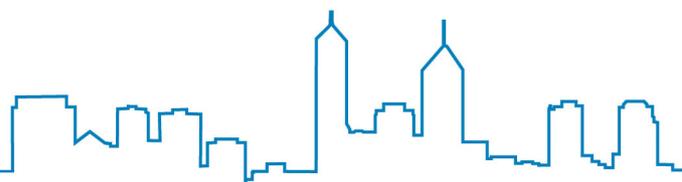
Questions:

If you have any questions please contact the IMO:

Jacinda Papps
08 9254 4353
jacinda.papps@imowa.com.au

Troy Forward
08 9254 4304
troy.forward@imowa.com.au

TROY FORWARD
GENERAL MANAGER DEVELOPMENT



Rules Development Implementation Working Group: Membership Application Form

Nomination form:

I would like to nominate the following person to be on the RDI WG:

Details of Nominee

Name:

Current Employer:

Postal Address:

Contact Phone Number:

Email Address:

Qualifications:

Representative Class being nominated for:

Knowledge and experience of members:

List any previous experience on industry advisory committees (such as the MAC) including any Working Groups constituted under the auspices of the MAC:

Responses to the following questions will allow the IMO to assess nominee's particular knowledge and expertise relating to the current market and market design. This will ensure that the Working Group as a collective has a balanced representation.

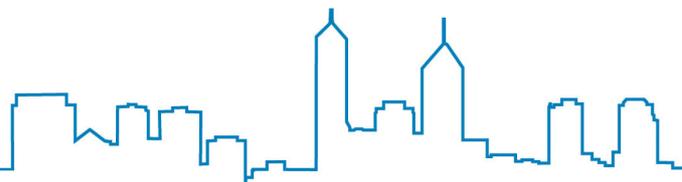
Please provide a brief outline of nominee's knowledge and/or experience of energy sector issues (limited to 5 sentences):



Please provide a brief outline of nominee's knowledge of the current WEM market design (limited to 5 sentences):

Please provide a brief outline of nominee's knowledge of market design principles (limited to 5 sentences):

Please provide a brief outline of nominee's knowledge of the technical, operational and commercial aspects of the WEM (limited to 10 sentences):



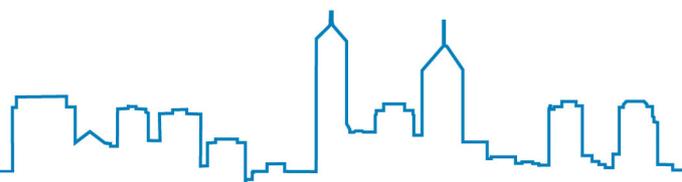
Appendix 1: Design Issues/Problems to be addressed

The design issues/problems to be addressed by the RDI WG are:

1. There is very limited opportunity for participants other than Verve to participate in providing balancing services and this inevitably means the cost of balancing is higher than it needs to be.
2. Provisions for Balancing Support Contracts have not been effective to date.
3. The calculation of MCAP and the role of UDAP and DDAP mean that balancing prices are not cost reflective and this leads to inefficient incentives for decisions about prices and participation and inequitable financial transfers between participants that compromise the integrity of the WEM.
4. At different times the capacity refund arrangements under and over price the value of capacity leading inefficient decisions by participants about the timing of maintenance and presentation of capacity.
5. The timing of operation and single pass design of STEM may be limiting the ability of the market to achieve efficient operation and cost reflective prices and accordingly creates a barrier for participation by all parties.
6. The requirement for resource plans to match STEM outcomes may be limiting participation in STEM and/or forcing inefficient dispatch of IPPs and Verve (as balancer) as IPPs attempt to comply with the resultant resource plans.
7. Poorly aligned gas and electricity mechanisms inhibits flexibility to respond to changing circumstances and produces suboptimal outcomes in the WEM.
8. Lack of transparency inhibits the ability of Market Participants to optimise interaction in the daily energy market.
9. Provision for net bilateral submissions compromises transparency and the accuracy of future price forecasts and may therefore lead to sub optimal decisions about participation by other market participants.
10. Pay as bid pricing for dispatch of IPP plant for balancing (outside a balancing support contract) is incompatible with efficient wider participation in balancing and potentially over compensates IPPs which bid at price caps due to uncertainty of dispatch outcomes.

An additional design issues/problem for noting (i.e. not part of the initial work of the RDIWG) is:

There is very limited opportunity for participants other than Verve to participate in providing Ancillary Services. This is due to the lack of certainty surrounding the pricing mechanism and the requirement to provide the service at a discount to Verve. System Management will look to develop a day-ahead procurement mechanism and present the outcomes of its analysis at the RDIWG.



Appendix 2: Rules Development Implementation Working Group Terms of Reference

1. BACKGROUND

The Rules Development Implementation Working Group (Working Group) has been established, in accordance with Clause 2.3.17 of the Wholesale Market Rules and the associated Section 9 of the Constitution of the Market Advisory Committee (MAC). Consistent with these authorised functions and powers, the overarching function of *any* Working Group established under the MAC is to assist the MAC in providing advice to the Independent Market Operator (the IMO) and System Management in matters relating to Wholesale Electricity Market (WEM) Rule and Procedural Change Proposals, WEM operation and South West interconnected system (SWIS) operational matters, and the evolution of the Market Rules more generally.

2. SCOPE

The Working Group's Scope of Work includes consideration, assessment, development and post-implementation evaluation of changes to the Market Rules associated with the issues list agreed by the MAC at its 11 August 2010 meeting.

3. TERMS OF REFERENCE

The Working Group is to:

- Prioritise the issues identified by the MAC into an appropriate number of development work streams;
- Agree a work plan and timeline for consideration of each of the work streams;
- Develop an integrated suite of solutions, including drafted Concept Papers and Rule Change Proposals to be presented to the MAC by way of presentation/s and supporting discussion paper/s; and
- Undertake a post-implementation evaluation of the solutions, to identify any remaining shortcomings and recommend an approach to address them.

The Rule Change Proposal(s) must include a full impact assessment prior to any recommendations being put forward to the MAC, including:

- Consideration of the implications of any changes on improving the delivery of the Market Objectives;
- Detailed feedback as to the implications to the operation of the existing WEM processes and physical outcomes; and
- Consideration of the financial costs and benefits of implementation.



Consistent with Section 9.5 of the MAC Constitution, all matters which are identified as falling outside the Scope and Terms of Reference of this Working Group must be referred back to the MAC for consideration.

4. OBJECTIVES AND PRINCIPLES

The Working Group must provide advice and report the extent to which its advice meets or is consistent with the Wholesale Market Objectives and the general principles reflected in the current Market Rules.

The Market Objectives are as outlined in Section 122 of the Electricity Industry Act 2004 and Clause 1.2.1 of the Market Rules.

5. MEMBERSHIP

The Working Group consists of a Chair and members appointed by the IMO from nominees, being representatives of Rule Participants and other interested stakeholders. In addition, staff, representatives and consultants of the IMO work with and support the group. Replacement and/or new nominees can be submitted to the IMO for consideration at any time.

6. TENURES

The Chair and members are appointed by the IMO and remain in tenure until the appointment is duly revoked by the IMO or the Working Group is disestablished.

A member of the Working Group may resign by giving notice to the IMO in writing; this notice of resignation can include an appropriate replacement from the member's entity, for approval by the IMO.

7. RESPONSIBILITY OF THE CHAIR

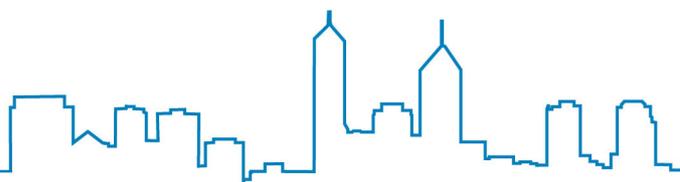
The Chair provides guidance to the group to ensure that the outputs are appropriate and that they support the Working Group's role of providing advice to the MAC. The Chair works closely with the MAC, the IMO and the Working Group to achieve this.

In carrying out the above role, the Chair must ensure the documented output reflects a balanced representation of the group views.

8. RESPONSIBILITY OF MEMBERS

Members have been selected for their particular expertise and accordingly:

- Members are to make themselves available for meetings;
- Members have a duty to prepare for meetings;



- Members are to consider the interests of all stakeholders currently operating within the WEM;
- Members do not represent their own organisations (although the range of commercial and technical experience inevitably adds diversity to the group's capabilities); and
- Any views expressed by members are not to be taken as being those of their employer or nominating organisation.

9. KEY TASKS AND MILESTONES – THE WORK PLAN

The Chair works with both the IMO and Working Group to develop the Work Plan, setting out the key tasks and milestones within the Terms of Reference.

The Chair has responsibility for the implementation of the approved Work Plan, efficient meetings of the Working Group and reporting to the MAC on achievement of agreed milestones.

10. NATURE OF DELIVERABLES

The Working Group delivers reports, advice and comments on the tasks within the scope of the Terms of Reference and as agreed and set out in the Work Plan. Such deliverables may be varied from time to time by direct request from the Chair of the MAC.

In some circumstances, the MAC may decide that comments, rather than advice, are required from the group. These circumstances may arise due to:

- Issue complexity and contentiousness;
- Parallel industry wide consultation; and
- Time frames.

The documented output in those circumstances would note the various issues raised by the group and advise on them.

11. REPORTING ARRANGEMENTS

Routine reporting will be via Working Group reports to the MAC. Consistent with section 9.4 of the MAC Constitution, the Working Group must report back to the MAC at each MAC meeting. The Chair will also personally report to the MAC at agreed key milestones.

12. ADMINISTRATION

The Working Group activities are to be as transparent as practical. The Chair must ensure that key decisions and action points from meetings are recorded.

